

Message Text

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ACTION ARA-10

INFO OCT-01 SS-14 ISO-00 EB-03 COME-00 TRSE-00 NSC-10

NSCE-00 CIAE-00 INR-10 NSAE-00 RSC-01 SSO-00 INRE-00

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FM AMEMBASSY LIMA

TO SECSTATE WASHDC IMMEDIATE 7259

C O N F I D E N T I A L LIMA 7260

LIMDIS

E.O. 11652: GDS

TAGS: BDIS, EMIN, EIND, PE

SUBJ: CERRO DE PASCO

REF: STATE 194586

1. SUMMARY: CERRO DE PASCO LIMA MORE CONCERNED ABOUT ZERO CASH FLOW PROBLEM THAN TRAVEL RESTRICTIONS. LLOSA SAYS NO RESTRICTIONS PLACED ON CERRO PERSONNEL AND MIKE KURLA ALREADY IN NEW YORK. MAJOR LOOMING PROBLEM FOR LOCAL OPERATION IS ZERO CASH FLOW CAUSED BY EMBARGO OF \$3.5 MILLION CHECK WHICH WILL HAVE TO BE RESOLVED THIS WEEK IN ORDER TO MEET UPCOMING SALARY AND OTHER CERRO DE PASCO PAYMENTS. END SUMMARY.

2. EMBOFF CALLED ON LLOSA WHO INFORMED HIM THAT CONTRARY RUMORS REPORTED BY WALSH TO DEPARTMENT NO TRAVEL RESTRICTIONS HAVE BEEN APPLIED TO ANY CERRO DE PASCO TOP MANAGEMENT. IN FACT, KURLA, AS SCHEDULED, ARRIVED MIAMI ON WEEKEND AND IS NOW IN NEW YORK. IN ADDITION, LAWYER, ALAYSA, RETIRED SEPTEMBER 30 AS PLANNED TO TAKE ADVANTAGE PERUVIAN RETIREMENT LAW. LLOSA SAID GOP TAKING NO UNUSUAL SECURITY PRECAUTIONS WITH TOP CERRO MANAGEMENT AND, ASIDE FROM USUAL BUGGING OF PHONES, ALL OPERATIONS NORMAL.

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3. LLOSA POINTED OUT THAT EXTREMELY URGENT PROBLEM FOR LOCAL CERRO OPERATIONS IS ZERO CASH FLOW CAUSED BY CERRO NEW YORK HAVING STOPPED PAYMENT ON \$3.5 MILLION CHECK. LLOSA EXPLAINED THAT CHEMICAL CORN EXCHANGE BANK NEW YORK HAD ORIGINALLY NOTIFIED CERRO LOCAL BANK, BANCO DEL CREDITO, OF PAYMENT OF \$3.5 MILLION. BANCO DEL CREDITO THEN INFORMED PERUVIAN CENTRAL BANK THAT PAYMENT AUTHORIZED. WHEN PAYMENT OF CHECK WAS STOPPED, BANCO DEL CREDITO, WHICH HOLDS MOST OF CERRO'S SOLES ACCOUNT, THEN FROZE THESE ACCOUNTS. LLOSA WAS ABLE OBTAIN SUFFICIENT FUNDS PAY WORKERS (WHO RECEIVE WAGES WEEKLY) ON LAST FRIDAY BUT WILL BE UNABLE TO MEET WEEKLY PAYROLL THIS FRIDAY AND IS ALREADY OVERDUE ON MONTHLY PAYMENT TO SMALL MINES WHOSE ORE IS PROCESSED BY CERRO. IN ADDITION, CERRO WILL SHORTLY BE UNABLE TO BUY LOCAL GOODS FOR SPARES AND REPAIRS, AND PRODUCTION WILL BE SERIOUSLY AFFECTED.

4. LLOSA SAID PRESIDENT BANCO DEL CREDITO, WHO NOW IN EUROPE, HAS SCHEDULED MEETING WITH MURPHY IN NEW YORK OCTOBER 3 AT WHICH TIME MURPHY MAY REQUEST THAT BANCO DEL CREDITO FOREGO ASKING FOR IMMEDIATE PAYMENT ON \$3.5 MILLION (WHICH WOULD IN EFFECT AMOUNT TO \$3.5 MILLION OVERDRAFT). LLOSA DOES NOT BELIEVE THIS PLOY WILL SUCCEED, HOWEVER, AND PLANS REQUEST PERMISSION FROM CERRO NEW YORK ON WEDNESDAY AFTERNOON TO APPROACH FINMIN MORALES BERMUDEZ WITH A REQUEST THAT THE CENTRAL BANK FOREGO REQUIREMENT OF IMMEDIATE PAYMENT OF THE \$3.5 MILLION SO THAT BANCO DEL CREDITO CAN UNFREEZE REMAINING SOLES FUND PENDING RESUMPTION OVERALL CERRO ISSUE. LLOSA NOTED THAT IF NEW YORK DOES NOT AUTHORIZE THIS APPROACH, HE WILL "HAVE TO RETHINK THE WHOLE ISSUE."

5. BY WAY OF BACKGROUND, LLOSA EXPLAINED TO EMBOFF THAT PRIOR TO BLOWUP OF LAST WEEK, HE HAD INVITED CAEM GENERAL DEL ROSARIO AND OTHER RANKING OFFICERS TO VISIT LA OROYA OPERATION. HE NOTED THAT THEY WERE EXTREMELY IMPRESSED BY COMPLEXITY OF OPERATION AND HAD PREPARED A REPORT WHICH HAD BEEN SUBMITTED TO COAP PRAISING CERRO AND URGING MODERATE STAND ON EXPROPRIATION. LLOSA SURMISES THAT GOVERNMENT MOVING CAUTIOUSLY ON CERRO ISSUE BECAUSE OF INTERNATIONAL CREDIT RAMIFICATIONS AND FACT THAT MANY MODERATES ARE PERTURBED BY HIGHHANDED TECHNIQUES USED BY FERNANDEZ MALDONADO DURING CERRO DISCUSSIONS.

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6. COMMENT: EMBASSY CONTINUES BELIEVE THAT PRESSURES FOR EXPROPRIATION DESCRIBED IN LIMA 7220 WILL BE DIFFICULT TO OVERCOME. HOWEVER, OTHER ALTERNATIVES REMAIN OPEN TO GOP, SUCH AS WAITING OUTCOME OF USG-GOP TALKS ON INVESTMENT DISPUTES AND/OR "INTERVENING" CERRO ASSETS BY USING GOVERNMENT ADMINISTRATOR RATHER THAN OUTRIGHT EXPROPRIATION.

BELCHER

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